DOCUMENT RESUME

ED 227 548 EA 015 468

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TITLE Discontinuing Social Security: Reallocating Employer Funds to Improve Employer Fringe Benefit Plans.
PUB DATE Jul 82
NOTE 7p.; Paper presented at the Annual Meeting of the Association of School Business Officials (68th, Atlanta, GA, November 2-6, 1982).
PUB TYPE Speeches/Conference Papers (150) -- Reports - Descriptive (141)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Elementary Secondary Education; Federal Programs; *Fringe Benefits; *Insurance; *Retirement Benefits; Risk; State Programs; Teacher Employment Benefits; Teacher Retirement; Two Year Colleges
IDENTIFIERS *Social Security; Tax Sheltered Annuities; *Texarkana Community College TX; Texarkana Independent School District TX

ABSTRACT

Texarkana (Texas) Community College and Texarkana Independent School District left the federal Social Security System (SSS) and reallocated SSS funds to a self-administered fringe benefit program, while also returning employees' SSS contributions to them intact. Several safeguards for Texas employees were already in place through the Texas Teacher Retirement System, including disability and health insurance and a tax-sheltered annuity (TSA) option. Benefits to employees of withdrawing from SSS included free life, health, and longterm disability insurance; a TSA, plus increased disposable income; and voluntary, not mandatory, retirement plans. Benefits to the employers included self-administration of fringe benefits, a better plan that had lower costs than SSS, no further funding of part-time employees, and, for the school district, no need to keep an insurance reserve. Among the concerns about leaving SSS are greater exposure of younger employees to high disability risks, employers' possible inability to cover longterm disability insurance costs, probably higher insurance premiums after SSS-covered employees move on, and possible drawbacks for today's more mobile workforce because SSS is national while state and local plans are not. On balance, the employers feel withdrawal from SSS was wise. (RW)

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ED227548

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Discontinuing Social Security: Reallocating Employer Funds To Improve Employer Fringe Benefit Plans

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July 1982

The State of Arkansas, like many other public entities throughout the nation, is seriously considering the merits of withdrawing from the Social Security system. Justification for making such a move can include:

1. Provide more disposable income to younger families, allow other employees to invest in traditionally higher return tax sheltered annuity programs.
2. Get out of a financially weak national program.
3. Shift from distant Washington, D.C., controlled retirement/medical/disability program to a home rule program that will hopefully be less prone to politically motivated budget cuts.

I have been asked to discuss with you how two Texas educational institutions, Texarkana Community College and Texarkana Independent School District left the Social Security System and developed their own medical, life insurance, and disability programs using institutional (taxpayer's) funds that had originally been earmarked for social security while simultaneously returning the employees' contributions intact and thus increasing their disposable income.

Before discussing how we achieved this goal, it is important to note what safeguards the Texas employees already had in place prior to withdrawing from social scurity.

First, under the Texas Teacher Retirement System (TRS), disability insurance protection was, and is, offered under the same qualifying criteria as the

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social security plan. This duplicate coverage was reassuring to those who qualified under TRS.

Next, Texas statutes mandate that retirees be offered the same health insurance benefits as full-time eligible employees for the same cost. Since the state provided substantial funding for qualified retirees (currently $48/month), the current employees felt assured of continued health coverage which made the Medicare package less critical.

Finally, all employees had the option to contribute into institutional approved tax sheltered annuities which permitted retirement conscious employees to redirect their increased disposable income from terminated social security payments into high yielding annuity programs.

All three of these previously established safeguards helped eliminate much of the uncertainty or danger from withdrawing from the Social Security System.

The benefits to the employee after withdrawing from the program included:

1. Free health, life and long term disability insurance was provided to the employee and dependents. The institution pledged to continue making "budgeted" contributions to a group benefit plan in the amount that would have been paid if the school had remained in social security. Because the actual cost of the program has not been as much as the pledged funds, the program has begun to develop a surplus that has permitted creative cost saving health plans (self insured - carrier administered), and will in the near future provide free employee and family dental care. We anticipate eventually, baring

unreasonable medical costs in the future, that we will have established the reserve to a level that will make it practicable to provide some form of employee payback.

2. Many of the employees had increased disposable incomes and voluntarily participated in tax sheltered annuity (TSA) programs. We understand that the returns on TSA investments should be higher than similar dollar investments in the social security system.

3. Employees enjoyed and preferred the voluntary vs. mandatory contribution plan to subsidize their retirement program. For instance, it seems that the younger, lower income families, with anticipation of improvement in a higher income level in later years, appreciate the additional income at a time when family living expenses are at a proportionately high level. They plan, it is assumed, to increase their contributions towards retirement annuity at a later date when their primary family raising and educational related expenses have been met. There are obvious deficiencies to this logic, but to many employees, it represents an option that is under their control (voluntary) and not dictated by a mandatory plan.

After withdrawal, the benefits to the employer have been numerous. As mentioned above, the College has been fortunate in developing what it considers to be a better plan that actually costs less than the social security alternative. This provides a strong example of how local control of a fringe benefit plan can cost less and provide more. Obviously, the

high administrative costs related to a national plan are eliminated when voluntary participants run a self-administered plan. This saving has been retained and redirected back to the benefit plan which has resulted in greater improvements in an already excellent package at no cost to the employee.

The College was funding part-time employees under the social security plan. Since we have not included funds for the insurance plan under what would have been matched by the employer for these part-time personnel, the College actually saved money.

The Independent School District chose not to develop a reserve for unused insurance funds. Since the insurance program has not cost as much as the social security matching protion would have, the school district has realized substantial savings because of withdrawal from the program.

At this date, there is a general belief by the employees that leaving the Social Security System was a beneficial decision for all persons. However, there remain several concerns that would be unwise to ignore.

Currently, many of the younger generation are exposed to high disability risk if their required social security quarters have not been established. Not all employees participate in TRS. In fact, the majority of the younger faculty and administrators have opted for a higher paying annuity program in lieu of TRS. This alternative does not provide for total disability coverage.

For those institutions, like Texarkana Community College, that offer long term disability insurance, long term benefits may not be adequate since the plans are subject to several tax penalties and rarely provide built-in inflationary or cost of living factors. Social security does.

Also, we currently can afford LTD insurance coverage because a large number of our employees have primary coverage for disability under the Social Security plan. It can only be imagined what will happen to the group rates when the older generation moves on, leaving the work force without the Social Security protection to absorb potential claims experience.

We found that not all employees shifted their additional revenue to the voluntary tax sheltered annuity plan. While this issue is a voluntary vs. "forced" or mandatory socialization issue, there is a valid concern by many about whether an employer has the obligation to assure long term protection of employees and their families.

Another concern is that benefits would be reduced for a current social security participant if the plan is discontinued prior to retirement. Whether tax sheltered payments would be adequate to offset the reduced benefits is an important consideration.

Finally, and perhaps most important, Social Security is a national plan. It follows you, and it continues to accrue benefits (assuming the continuation of the plan at subsequent work locations). Very few state or local programs have this flexibility. Since we all are subject to relocation, and live in a time of high professional mobility, it is a necessary consideration to determine what effect the loss of benefit plan mobility would have on a person if the Social Security plan were discontinued.

Leaving Social Security is a difficult decision. Beyond the objective gain/lose issues, the question suffers a serious emotional cord. To place a stronger reliance on local (or state) control of our retirement,

disability, and health benefit plans seems to be a signal that the days of strong fiscal responsibility from Washington, D.C. are coming to an end. For many, this is an uncompromising issue. One that will not be resolved without a struggle - internal and external.

I leave you with the positive note that at Texarkana Community College we believe that our decision to withdraw from Social Security was wise. We are confident that the future will prove this to be so.